IN THE MATTER OF THE APPLICATION REGARDING CONVERSION OF PREMERA BLUE CROSS AND ITS AFFILIATES

Washington State Insurance Commissioner's Docket # G02-45

PRE-FILED RESPONSIVE TESTIMONY OF:

Brian Ancell
Executive Vice President of Health Care Services and
Strategic Development
Premera Blue Cross

April 15, 2004

CONFIDENTIAL and PROPRIETARY
NOT FOR PUBLIC DISCLOSURE

Introduction of Witness

Q. Please state your name.

A. Brian Ancell.

Q. Please identify your employer and state your title.

A. I am Executive Vice President of Health Care Services and Strategic Development for Premera Blue Cross ("Premera").

Q. Are you the same Brian Ancell who filed direct testimony on March 31, 2004, in this proceeding?

A. Yes.

Q. Have you read the pre-filed direct testimony filed in this matter by the witnesses of the Office of the Insurance Commissioner, the state consultants, and the interveners in this proceeding?

A. I have read the pre-filed direct testimony that pertains to my area of testimony. In particular, I have read the pre-filed direct testimony of Dr. Jeff Collins on behalf of the Washington State Medical Association dated March 30, 2004, Ralph Hill on behalf of the Washington Association of Community and Migrant Health Centers dated March 30, 2004, and Leo Greenawalt of the Washington State Hospital Association ("WSHA") dated March 30, 2004.

Testimony

Q. Do you have a response to any of the matters set forth in those direct testimonies?

A. Yes. I would like to respond to testimony on the following subjects:

- Provider relations, claims payment and reimbursement;
- Premera's commitment to broad networks; and
- Hospital and physician negotiations

Q. Do you agree with Dr. Collins' assertion that Premera is confusing for providers to work with?

A: No, Dr. Collins' testimony runs counter to the feedback I generally receive from physicians and hospitals.

Strong provider networks are critical to Premera's success as a health plan, and we cannot maintain strong networks without good provider relations. As detailed in my pre-filed direct testimony, Premera has worked very hard at its provider relations and we strive to continue to improve communications and relationships with our network providers. Equally, we have been committed to easing the administrative burden providers can labor under when dealing with health plans. We have an extensive Provider Relations staff that is devoted to responding to questions that might arise in the course of provider's dealings with us. We have also made tremendous strides in simplifying our own administrative processes, with many changes based on feedback from our providers. More broadly, Premera has taken a leadership role in the Washington Health Care Forum, whose mission is to improve the way in which health care is delivered and financed in our marketplace. Premera has been a driving force behind a number of the Forum's adopted improvements in administrative efficiency, including the use of uniform credentialing applications, the use of common claims modifiers, certain uniform claims procedures and standards and, in Premera's case, the abandonment of the use of referrals.

Q: Do you agree with Dr. Collins' suggestion that Premera is "among the most difficult to deal with?"

A: I strongly disagree with this comment in light of our experiences with our network providers and the objective evidence. As I explained in my pre-filed direct

testimony, according to a survey conducted by a national survey organization, 75% of Washington physicians surveyed rated Premera in general "much better" or "better" than other health plans. In that same survey, 69% felt that our provider relations program was "much better" or "better" than other health plans, and our Customer Service program received a rating of 8.1 on a ten-point scale. Of course, there is always room to be even better, and we will continue to improve the way we work with the physician community.

Q: Do you agree with Dr. Collins' suggestion that Premera negotiates with providers on a "take it or leave it" basis?

A. No. Dr. Collins is simply mistaken in asserting that Premera does not negotiate terms or fees with providers. While we do use a standard contract form and a standard fee schedule, we also frequently negotiate custom contracts and fee schedules with physicians throughout the state. Across the state, some 33.2% of our claims for physician services are paid at negotiated rates in excess of our standard fee schedule. In Dr. Collins' home town of Spokane, the figure is 30.7%, and in rural Eastern Washington, the figure is 33.9%. In addition, over the last four years, our standard fee schedule has increased by an average of 21.2% in Eastern Washington and by an average of 19.4% in Western Washington. This evidence of non-standard, negotiated contracts belies Dr. Collins' statement that Premera negotiates with providers on a take it or leave it basis.

Q. Do you agree with Dr. Collins' observation that Premera's fee schedule is insufficient?

A. Premera's provider reimbursement rates balance provider demands for increased payments and our efforts to control the upward trend in health care premiums. Every demand for higher payment levels by providers has a direct impact on the premiums our policyholders have to pay. Therefore, we seek to pay providers at market-appropriate

levels. Dr. Collins himself concedes that our payment levels are in line with those of other carriers.

Q: Dr. Collins claims that Premera (as well as other health plans) fails to pay claims promptly and is responsible for the increasing levels of provider accounts receivable? How do you respond?

A: I cannot speak to the payment patterns of other health plans. I can testify that Premera has gone to great lengths to ensure fast claims payment, including substantial investments in advanced claims processing technology. In 2003, we paid 84.7% of clean claims within 14 days and 96.2 % within 30 days. Dr. Collins' assertions do not square with these facts.

Q: Mr. Hill speculates that Premera may limit the range of specialists with whom it contracts, thereby limiting access to care, in order to increase profits. Can you comment on that concern?

A: Such speculation has no basis in fact. Limiting member access to specialists will not lead to increased profit or revenue for Premera. In fact, a recent study published in The New England Journal of Medicine found that for-profit insurers provide equal access to care as their non-profit counterparts.[1] Furthermore, limiting member access to providers would only make us unattractive to our customers.

Q. Mr. Hill, Mr. Greenawalt, and other intervener witnesses mention Premera's contract negotiations with hospitals in Spokane and Tacoma as indicators that negotiations with a converted Premera will be more difficult. Do you have a response?

A. Negotiations between providers and insurers regarding reimbursement rates are frequently challenging. That is not unique to Premera. Nor is it unique to for-profit companies. There have been numerous accounts of difficult negotiations between

[1] [1] Schneider, Zaslavski, and Epstein, The New England Journal of Medicine, "Use of High-Cost Operative Procedures By Medicare Beneficiaries Enrolled in For-Profit and Not-for-Profit Health Plans", January 8, 2004.

providers and non-profit insurers in Washington in the past. In fact, some of those resulted in contract terminations by either providers or insurers.

The Providence hospital system in eastern Washington and the Multicare hospital system in Tacoma have threatened contract terminations absent Premera's agreement to the fee increases they demanded. While disappointing, such tactics are not extraordinary. Nor do they mean that an impasse is inevitable. Despite Mr. Greenawalt's suggestion that they have "broken-down," contract negotiations continue. In fact, earlier this week, Premera and Holy Family Hospital, a member of the Providence Eastern Washington system, agreed to extend their agreement through September 30, 2004 in order to allow time for further negotiations.

I do not agree with the Interveners assertions that contract negotiations will be more difficult as a result of a Premera conversion. Premera will have the same priorities to maintain a stable and attractive network for our members, manage health care cost trends, and satisfy or exceed network adequacy standards. The company will have to continue to pay competitive reimbursement rates in the same competitive landscape.

Q. Mr. Greenawalt's testimony states that WSHA surveyed its members' opinions and that the majority of those responding were not in favor of conversion. Do you have any observations regarding that data?

A. Well, it was hardly a neutral survey, since Mr. Greenawalt and WSHA have been on the record in their opposition to a Premera conversion and have sued us to prevent the conversion. That said, given the open antagonism of WSHA to Premera's conversion and WSHA's related lawsuit, it is noteworthy that, even by Mr. Greenawalt's account, hospitals do not uniformly oppose conversion. As testified by Mr. Greenawalt, about one-third of the hospitals surveyed by WSHA were neutral on the subject.

Q. In his Pre-filed Direct Testimony, Mr. Greenawalt asserts that "[l]arge commercial insurers do not focus on rural areas, because there just are not many people living in them." He then points out the many functions that rural hospitals serve. What are your comments on his observations?

A. I certainly agree that rural hospitals are important to the communities they serve. But I do not agree with Mr. Greenawalt's logic. He seems to think that, because rural hospitals are small, Premera is not interested in contracting with them as part of its networks. That is simply inaccurate. Rural hospitals are particularly important to Premera because of the limited number of hospitals in such areas. As a result, rural hospitals possess meaningful bargaining power when negotiating with Premera.

Q. Mr. Greenawalt also references some survey results about the feelings of hospitals when negotiating with Premera. Do you have a response?

A. Mr. Greenawalt asserts that 41% of the hospitals responding to the survey find "Premera more difficult to negotiate with than other payors." He cites the survey for the proposition that hospitals are having trouble negotiating with Premera. He fails to note the converse: 59% of hospitals responding – by a ratio of three to two – found Premera as easy (or easier) to negotiate with than other payors. Mr. Greenawalt's data contradicts the point he tries to make – that Premera is hard-nosed in its contract negotiations. His concern that Premera's contracting practices will change as a result of pressure to generate shareholder profit is equally unsupported.

Q. Mr. Greenawalt states that he has heard that there are lower rates of reimbursement in California which he attributes to the conversion of some Blue Plans there. What is your response?

A. While I appreciate Mr. Greenawalt's opinion, I do not believe he is an expert on the effect of conversions on the California marketplace. I would suggest that the Commissioner consider instead the testimony of Dr. McCarthy who explains why

Premera's conversion will not result in lower rates of provider reimbursement in Washington. But even reading Mr. Greenawalt's testimony from my layperson's perspective, it is clear that he just provides an anecdote about what he has "heard" from his counterpart in California.

Q. What is your response to Mr. Greenawalt's claim that hospitals need to generate positive net operating revenue from their private-paying patients in order to offset underpayments from the Medicare and Medicaid programs?

A. The hospitals and the physicians have a legitimate concern with the level of Federal and state reimbursement for Medicare and Medicaid. But I disagree with his solution. Private subscribers cannot be expected to further subsidize the inadequate funding of public programs. In any event, whether Premera converts or not will not change the level of underpayments to providers from Medicare and Medicaid.

Q. Mr. Greenawalt suggests that Washington hospitals are operating on narrow margins. What is your response?

A. Mr. Greenawalt provides selected information about hospital margins. He fails to acknowledge that numerous hospitals in eastern and western Washington -- both rural and urban -- have strong operating margins.

The Washington State Department of Health publishes statistics on hospital financial performance[2]. The Department of Health statistics for fiscal year 2002 disclose the following operating margins for various hospitals:

- 20.6% for Mary Bridge Children's Health Center in Tacoma
- 18.1% for East Adams Rural Hospital in Ritzville
- 17.9% for Auburn Regional Medical Center in Auburn
- 17.4% for BHC Fairfax Hospital in Kirkland

[2] Washington State Department of Health, Center for Health Statistics, Hospital Data, Financial Ratios, located at http://www.doh.wa.gov/EHSPHL/hospdata/Summary/FinancialRatios.xls , April 15, 2004

- 15.2% for St. Clare Hospital in Tacoma
- 13.6% for Lourdes Counseling Center in Richland
- 12.7% for Othello Community Hospital in Othello
- 12.2% for Capital Medical Center in Olympia
- 11.0% for Cascade Valley Hospital in Arlington
- 10.9% for Island Hospital in Anacortes
- 10.5% for Tacoma General Allenmore Hospital in Tacoma
- 10.5% for Saint Francis Community Hospital in Federal Way
- 7.8% for Saint Joseph Medical Center in Tacoma
- 7.5% for Newport Community Hospital in Newport
- 6.8% for Kindred Hospital in Seattle
- 6.3% for Pullman Memorial Hospital in Pullman
- 5.7% for Yakima Valley Memorial Hospital in Yakima
- 5.5% for Saint Joseph Hospital in Bellingham
- 5.1% for Swedish Medical Center in Seattle
- 4.9% for Prosser Memorial Hospital in Prosser
- 4.6% for Overlake Hospital Medical Center in Bellevue
- 4.4% for Wenatchee Valley Hospital
- 4.2% for Kittitas Valley Hospital in Ellensburg
- 4.1% for Virginia Mason Medical Center in Seattle

By way of comparison, Premera's operating margin for 2002 was 1.4 percent.

Q. Does this conclude your pre-filed responsive testimony?

A. Yes, it does.

VERIFICATION

I, BRIAN ANCELL, declare under penalty of perjury of the laws of the State of Washington that the foregoing answers are true and correct.

Executed this ____ day of April, 2004, at _____

/s/
BRIAN ANCELL